



CFA® SAMPLE QUESTION – LEVEL I

Economics

Q: A reserve requirement of 20% implies a money deposit expansion multiplier (potential) of:

CORRECT ANSWER:

5 (\mathbf{a})

28

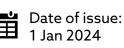
The "Potential" deposit expansion multiplier is the reciprocal of the required reserve ratio.

So in our question, If the required reserve ratio is 20% (.2), the potential deposit expansion multiplier is equal to 1 / 0.2 = 5

The actual deposit expansion multiplier is less than the potential deposit expansion multiplier for two reasons:

- Banks may not loan out all available funds (i.e. they may have excess reserves, which are reserves that exceed required reserves)
- Recipients of loans may not deposit the proceeds; they may instead decide to hold them as currency





Disclaimer: This material is produced by a voluntary study group leader. CFA Society Hong Kong makes no representations about the accuracy, reliability, completeness, or timeliness of this material. Use this material at your own risk.



CFA Society Hong Kong Candidate Services